

FEDERAL RESERVE SYSTEM

The Royal Bank of Scotland Group plc
Edinburgh, Scotland

Order Approving Notice to Engage in Nonbanking Activities

The Royal Bank of Scotland Group plc (“RBSG”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and (j)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24) to retain its ownership interest in NatWest Group Holdings Corporation, New York, New York (“NatWest Holdings”) and its subsidiaries, and thereby engage in the following activities:

- (1) Extending credit and servicing loans, in accordance with section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1));
- (2) Arranging real estate equity financing, and acquiring debt in default, in accordance with section 225.28(b)(2) of Regulation Y (12 C.F.R. 225.28(b)(2));
- (3) Leasing personal or real property, in accordance with section 225.28(b)(3) of Regulation Y (12 C.F.R. 225.28(b)(3));
- (4) Providing financial and investment advisory services, in accordance with section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6));
- (5) Providing securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional services, in accordance with section 225.28(b)(7) of Regulation Y (12 C.F.R. 225.28(b)(7));
- (6) Underwriting and dealing in government obligations and money market instruments that state member banks may underwrite or deal in under 12 U.S.C. §§ 24 and 335 (“bank-eligible securities”), engaging as principal in investing and trading activities, and buying and selling bullion and related activities, in accordance with section 225.28(b)(8) of Regulation Y (12 C.F.R. 225.28(b)(8));

- (7) Data processing activities, in accordance with section 225.28(b)(14) of Regulation Y (12 C.F.R. 225.28(b)(14));
- (8) Underwriting and dealing in, to a limited extent, all types of debt and equity securities that a member bank may not underwrite or deal in, except for ownership interests in open-end investment companies (“bank-ineligible securities”); and
- (9) Acting as a digital certification authority.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (65 Federal Register 37,389 (2000)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4 of the BHC Act.

NatWest Holdings is a wholly owned subsidiary of National Westminster Bank plc, London, England (“NatWest”). RBSG acquired its indirect ownership interest in NatWest Holdings in March 2000, as a result of its acquisition through a public tender offer of all the voting shares of NatWest.² RBSG and NatWest have not merged with each other and remain separate foreign banking organizations. RBSG received the Board’s approval under section 4(c)(9) of the BHC Act to retain temporarily its indirect ownership interest in NatWest pending submission of this notice.

NatWest, with consolidated total assets of approximately \$309.3 billion, is the third largest banking organization headquartered in the United

¹ See Bayerische Hypo- und Vereinsbank AG, 86 Federal Reserve Bulletin 56 (2000).

² See Letter from Robert deV. Frierson, Associate Secretary of the Board, to Gregory J. Lyons, Esq., dated February 7, 2000.

Kingdom and the 28th largest in the world. NatWest operates a branch in New York, New York, and a representative office in Houston, Texas.³

Before its acquisition of NatWest, RBSG had consolidated total assets of approximately \$133.7 billion, and was the seventh largest banking organization headquartered in the United Kingdom and the 60th largest banking organization in the world.⁴ In light of its acquisition of NatWest, RBSG has consolidated total assets of approximately \$442.9 billion and is the fourteenth largest banking organization in the world. RBSG's principal subsidiary, The Royal Bank of Scotland plc, Edinburgh, Scotland, operates a branch in New York, New York. RBSG also controls Citizens Financial Group, Inc., Providence, Rhode Island, and its subsidiary banks, Citizens Bank of Rhode Island, Providence, Rhode Island; Citizens Bank of Connecticut, New London, Connecticut; Citizens Bank New Hampshire, Manchester, New Hampshire; Citizens Bank of Massachusetts, Boston, Massachusetts; and United States Trust Company, Boston, Massachusetts.

NatWest Holdings engages in bank-ineligible securities activities in the United States through its section 20 subsidiary, Greenwich Capital Markets, Inc., Greenwich, Connecticut ("GCM"). RBSG has applied to operate GCM pursuant to section 4(c)(8) of the BHC Act. GCM is, and would continue to be, registered as a broker-dealer with the Securities and Exchange Commission

³ Because RBSG and NatWest continue to operate in the same corporate form, RBSG's acquisition of NatWest did not result in the establishment by RBSG of any additional branches, agencies or representative offices in the United States for purposes of section 211.24 of the Board's Regulation K (12 C.F.R. 211.24). RBSG has provided the Board notice of its acquisition of control of NatWest as required by section 211.24(a)(4)(i) of Regulation K (12 C.F.R. 211.24(a)(4)(i)).

⁴ Asset data for NatWest and ranking data are as of December 31, 1998, and reflect exchange rates then in effect. Asset data for RBSG are as of September 30, 1998, and reflect exchange rates then in effect.

(“SEC”) under the Securities Exchange Act of 1934,⁵ and as a futures commission merchant with the Commodity Futures Trading Commission (“CFTC”) under the Commodity Exchange Act.⁶ Accordingly, both are, and would continue to be, subject to the recordkeeping and reporting obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934 and the SEC and of the Commodity Exchange Act and the CFTC.

Underwriting and Dealing in Bank-Ineligible Securities

The Board has determined that, subject to the prudential framework of limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects, underwriting and dealing in bank-ineligible securities are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act.⁷ The Board has permitted such securities activities on the condition that the company engaged in the activities derives no more than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities over a two-year period.⁸ RBSG has committed that it will conduct its bank-ineligible

⁵ 15 U.S.C. § 78a et seq.

⁶ 7 U.S.C. § 1a et seq.

⁷ See Canadian Imperial Bank of Commerce, et al., 76 Federal Reserve Bulletin 158 (1990); J.P. Morgan & Co. Incorporated, et al., 75 Federal Reserve Bulletin 192 (1989), aff’d sub nom. Securities Industry Ass’n v. Board of Governors of the Federal Reserve System, 900 F.2d 360 (D.C. Cir. 1990); Citicorp, et al., 73 Federal Reserve Bulletin 473 (1987), aff’d sub nom. Securities Industry Ass’n v. Board of Governors of the Federal Reserve System, 839 F.2d 47 (2d Cir. 1988), cert. denied, 486 U.S. 1059 (1988) (collectively, “Section 20 Orders”).

⁸ See Section 20 Orders. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the Order Approving Modifications to the Section 20 Orders, 75 Federal Reserve Bulletin 751 (1989), and 10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in

securities underwriting and dealing activities subject to the 25-percent revenue limitation and the limitations previously established by the Board. As a condition of this order, RBSG, NatWest Holdings, and GCM are required to conduct their bank-ineligible securities activities subject to the Operating Standards established for section 20 subsidiaries (“Operating Standards”).⁹

Other Activities Approved by Regulation or Order

The Board previously has determined by regulation or order that extending credit and engaging in activities related to extending credit; arranging real estate equity financing; acquiring debt in default; leasing personal or real property; financial and investment advisory activities; securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional services; investing and trading as principal; buying and selling bullion and related activities; data processing; bank-eligible securities underwriting and dealing; and acting as a digital certification authority, are closely related to banking for purposes of section 4(c)(8) of the BHC Act.¹⁰ RBSG has committed that these activities will be conducted in accordance with the Board’s regulations and prior Board decisions relating to the activities.

Underwriting and Dealing in Securities, 61 Federal Register 48,953 (1996); and Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities, 61 Federal Register 68,750 (1996) (collectively, “Modification Orders”).

⁹ 12 C.F.R. 225.200. GCM may provide services that are necessary incidents to the proposed underwriting and dealing activities. Unless GCM receives specific approval under section 4(c)(8) of the BHC Act to conduct the incidental activities independently, any revenues from such activities must be treated as ineligible revenues subject to the Board’s revenue limitation.

¹⁰ See 12 C.F.R. 225.28(b)(1), (2), (3), (6), (7), (8), and (14); Bayerische Hypo- und Vereinsbank AG, 86 Federal Reserve Bulletin 56 (2000).

Proper Incident to Banking Standard

In order to approve the proposal, the Board must consider whether performance of the proposed activities by RBSG “can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.”¹¹ As a part of its evaluation of these factors, the Board considers the financial condition and managerial resources of a notificant and its subsidiaries and the effect the transaction would have on those resources.¹²

The Board has considered carefully the financial resources of RBSG and notes that its capital ratios satisfy applicable risk-based standards under the Basle Capital Accord, and are considered equivalent to the capital levels that would be required of a United States banking organization. The Board also has reviewed the capitalization of RBSG, NatWest, and GCM in accordance with the standards set forth in the Section 20 Orders and finds the capitalization of each to be consistent with approval. The Board’s determination is based on all the facts of record, including RBSG’s projections of the volume of bank-ineligible securities underwriting and dealing activities proposed to be conducted by GCM.

The Board also has carefully reviewed the managerial resources of the organizations involved in light of all the facts of record, including confidential examination reports concerning GCM, and the Board’s supervisory experience with RBSG and NatWest. The Board previously has determined that NatWest and GCM have established appropriate policies and procedures to ensure compliance with the Board’s Section 20 Orders, including computer, audit, and accounting

¹¹ See 12 U.S.C. § 1843(j)(2)(A).

¹² See 12 C.F.R. 225.26.

systems, internal risk management controls, and the necessary operational and managerial infrastructure.¹³ RBSG has stated that it intends to use the policies and procedures currently in place at NatWest and GCM to ensure compliance with the Board's Section 20 Orders and Operating Standards. On the basis of these and all other facts of record, including the commitments provided in this case and the proposed managerial structure and risk management systems of GCM, the Board has concluded that financial and managerial considerations are consistent with approval.

The Board also has carefully considered the competitive effects of the proposed transaction under section 4 of the BHC Act. To the extent that RBSG and NatWest Holdings offer different types of nonbanking products, the proposed acquisition would result in no loss of competition. In those markets in which the nonbanking product offerings of RBSG and NatWest Holdings overlap, such as securities brokerage and investment advisory activities, there are numerous existing and potential competitors. Consummation of the proposal, therefore, would have a de minimis effect on competition in the market for those services. Based on all the facts of record, the Board has concluded that the proposal would not result in any significantly adverse competitive effects in any relevant market.

As noted above, RBSG has committed that GCM will conduct its bank-ineligible securities underwriting and dealing activities in accordance with the prudential framework established by the Board's Section 20 Orders. Under the framework and conditions established in this order and the Section 20 Orders, and based on all the facts of record, the Board concludes that the proposed bank-ineligible underwriting and dealing activities are not likely to result in significantly

¹³ See National Westminster Bank Plc, 82 Federal Reserve Bulletin 1044 (1996).

adverse effects. Similarly, the Board concludes that the conduct of the other proposed nonbanking activities by RBSG under the framework and conditions established in this order, prior orders, and Regulation Y is not likely to result in any significantly adverse effects.

The Board also expects that the proposed acquisition would provide added convenience to the customers of RBSG and NatWest Holdings. RBSG has indicated that the transaction would strengthen the position of the combined organization in European and international financial markets, and would allow the combined organization to diversify its operations and sources of revenue and provide a broader array of financial services to customers in the United States. In addition, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments are consistent, as in this case, with the relevant considerations under the BHC Act.

Based on all the facts of record, the Board has determined that performance of the proposed activities by RBSG, under the framework established in this and prior decisions, can reasonably be expected to produce benefits to the public that outweigh any reasonably expected adverse effects of the proposal.

Conclusion

Based on all the facts of record, the Board has determined that the notice should be, and hereby is, approved, subject to all the terms and conditions in this order and the Section 20 Orders, as modified by the Modification Orders. The Board's approval of this proposal extends only to activities conducted within the limitations of those orders and this order, including the Board's reservation of authority to establish additional limitations to ensure that the activities of RBSG

are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act. Underwriting and dealing in any manner other than as approved in this order and the Section 20 Orders (as modified by the Modification Orders) is not within the scope of the Board's approval and is not authorized for RBSG or GCM.

In reaching its conclusion, the Board has considered all the facts of record in light of the factors that the Board is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by RBSG with all the commitments made in connection with this notice, and on the Board's receiving access to information on the activities or operations of RBSG and any of its affiliates that the Board determines to be appropriate to determine and enforce compliance by RBSG and its affiliates with applicable federal statutes. The Board's approval also is subject to all the conditions set forth in this order and in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. These commitments and conditions are deemed to be conditions imposed in writing by

the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

By order of the Board of Governors,¹⁴ effective July 31, 2000.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹⁴ This action was taken pursuant to the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.4(b)(1)) by a committee of Board members. Voting for this action: Chairman Greenspan and Governors Kelley and Gramlich. Absent and not voting: Vice Chairman Ferguson and Governor Meyer.